Template for Nonprofit Education Foundations
INVESTMENT POLICY STATEMENT

I. Scope

This policy applies to the investment of all operating funds of the Education Foundation, hereinafter called “the corporation.”

1. Responsibility for Management of Funds

All funds of the corporation shall be managed by the board of directors. At the discretion of the board, an external agent or agencies may be engaged to manage funds of the corporation; in which case, the external manager(s) shall be responsible directly to the board of directors.

2. External Management of Funds

Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

3. Pooling of Funds

Except for cash in certain restricted and special funds, the corporation will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

I. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest-rate risk.

a. Credit Risk

The corporation will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

1. pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the corporation will do business; and

2. diversifying the portfolio so that potential losses on individual securities will be minimized.

b. Interest-Rate Risk

The corporation will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

1. structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and

2. investing operating funds primarily in shorter-term securities.

2. Liquidity
The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in bank deposits or repurchase agreements that offer same-day liquidity for short-term funds.

3. Yield
The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

1. a security with declining credit may be sold early to minimize loss of principal;
2. a security swap would improve the quality, yield, or target duration in the portfolio; and
3. liquidity needs of the portfolio require that the security be sold.

II. Standards of Care

1. Prudence
The standard of care to be used by investment officials shall be the "prudent person" standard[1] and shall be applied in the context of managing an overall portfolio. The board of directors, acting in accordance with written procedures and this investment policy, and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

[1] Prudent Person Rule is a standard that requires that a fiduciary with funds for investment may invest such funds only in securities that any reasonable individual interested in receiving a good return of income while preserving his or her capital would purchase. Historically known as the prudent or reasonable man rule, this standard does not mandate an individual to possess exceptional or uncanny investment skill. It requires only that a fiduciary exercise discretion and average intelligence in making investments that would be generally acceptable as sound. (West's Encyclopedia of American Law. Copyright © 1998 by The Gale Group, Inc. All rights reserved.)

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

2. Ethics and Conflicts of Interest

Directors and agents involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Directors and agents shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Directors and agents shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the corporation.

3. Delegation of Authority

Responsibility for the operation of the investment program is hereby delegated to the corporation, which shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the corporation. The corporation shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

4. Audits

The books and records of the corporation shall be audited annually by a certified public accountant.

III. Suitable and Authorized Investments

1. Investment Types

In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that the corporation will consider and which shall be authorized for the investments of funds by the corporation.

a. <u>United States Treasury Securities.</u> Obligations of the United States Government for which the full faith and credit of the United States are pledged for the payment of principal and interest.

b. <u>United States Agency Securities.</u> Obligations issued or guaranteed by any agency of the United States Government.

c. Repurchase Agreements. Contractual agreements between the corporation and commercial banks or primary government securities dealers. The purchaser in a repurchase agreement enters into a contractual agreement to purchase U.S. Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.

d. Collateralized Public Deposits (Certificates of Deposit). Instruments issued by financial institutions that state that specified sums have been deposited for specified periods of time and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by state statute.

e. Bankers' Acceptances. Time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation.

f. Commercial Paper. Commercial paper issued by domestic corporations, which has received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's corporation. Eligible paper is further limited to issuing corporations that have total commercial paper program size in excess of five hundred million dollars ($500,000,000).

g. Mutual Funds. SEC-registered mutual funds in good standing with holdings solely composed of the above types of investments.

2. Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of the corporation's funds, the investment portfolio will be subject to the following restrictions:

a. Borrowing for investment purposes ("leverage") is prohibited.

b. Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters, and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a "derivative" instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.

c. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

d. No more than 5% of the total market value of the portfolio may be invested in bankers' acceptances issued by any one commercial bank and no more than 5% of the total market value of the portfolio may be invested in commercial paper of any one issuer.

IV. Investment Parameters

1. Diversification

The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

a. U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. government.…………………………………………………………………..……100%

b. Collateralized time and demand deposits………….………………………………100%

c. U.S. Government agencies, and government sponsored enterprises…no more than 60%

d. Collateralized repurchase agreements…………………………..……no more than 50%

e. U.S. Government agency callable securities………………………....no more than 30%

f. Commercial Paper……………………………………………….………no more than 30%

g. Bankers' Acceptances……………………………………..………no more than 30%

2. Maximum Maturities

To the extent possible, the corporation shall attempt to match its investments with anticipated cash flow requirements. Investments in bankers' acceptances and commercial paper shall mature and become payable not more than one hundred eighty days (180) from the date of purchase. All other investments shall mature and become payable not more than five (5) years from the date of purchase. The corporation shall adopt weighted average maturity limitations that should not exceed three (3) years and is consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as in bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

V. Reporting

The board of directors shall prepare an annual and quarterly investment reports, including a management summary that provides an analysis of the status of the investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the corporation to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the corporation. The report will include the following:

a. Listing of individual securities held at the end of the reporting period;

b. Listing of investment by maturity date;
c. Percentage of the total portfolio that each type of investment represents;
d. Current market value of investment portfolio; and
e. Market value deviation from previous reporting period, and year-to-date.

VI. Adoption

This policy shall be adopted by resolution of the corporation’s board of directors. The corporation’s finance committee shall review the policy annually and recommended changes will be presented to the board of directors for consideration.